

## Message Text

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TAGS: EFIN, HU

SUBJ: REQUEST FOR INFORMATION ON HUNGARIAN REGULATIONS  
FOR FOREIGN BANKS

REF: STATE A-9220, DECEMBER 17, 1974

STATE PASS TREASURY

1. EMBASSY OFFICER HAS SPOKEN WITH LASZLO KARCAJ, FOREIGN MANAGER OF THE HUNGARIAN NATIONAL BANK (MNB), AND IVAN MEZNERICS, DIRECTOR OF THE BANK'S LEGAL DEPARTMENT, CONCERNING THE ACTIVITIES OF FOREIGN BANKS HERE. BOTH BANK OFFICIALS STATED THAT HUNGARY HAS NO LAWS WHICH SPECIFICALLY APPLY TO THE ACTIVITIES OF FOREIGN BANKS. UNDER EXISTING REGULATIONS, FOREIGN BANK ACTIVITIES ARE REGULATED BY THE HUNGARIAN MINISTRY OF FINANCE IN CONSULTATION WITH THE PRESIDENT OF THE HUNGARIAN NATIONAL BANK. DURING THE PAST YEAR, THREE FOREIGN BANKS -- KREDITANSTALT OF VIENNA, FIRST NATIONAL CITY BANK, AND A YUGOSLAV BANK -- HAVE ALL RECEIVED PERMISSION TO OPEN REPRESENTATIVE OFFICES IN BUDAPEST. IN EACH INSTANCE THE APPLICATION OF THE BANK FOR A REPRESENTATIVE OFFICE WAS APPROVED BY THE MINISTRY OF FINANCE AFTER CONSULTING WITH THE PRESIDENT OF THE HUNGARIAN NAT'L BANK. THESE THREE BANKS ARE THE ONLY FOREIGN BANKS WHICH HAVE RECEIVED PERMISSION TO OPEN ANY TYPE OF OFFICE IN HUNGARY.

2. WHILE FIRST NATIONAL CITY AND KREDITANSTALT HAVE YET  
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TO BEGIN OPERATIONS HERE, IT IS CLEAR THAT THE PRINCIPAL

FUNCTION OF THEIR OFFICES WILL BE TO PROMOTE EAST-WEST TRADE AND PROVIDE FINANCING. FNCB ALSO IS PLANNING TO USE BUDAPEST OFFICE AS CENTER FROM WHICH TO SERVICE NEIGHBORING CEMA COUNTRIES. THESE REPRESENTATIVE OFFICES WILL IN NO WAY COMPETE WITH THE BANKING ACTIVITIES OF THE HUNGARIAN NATIONAL BANK OR OTHER HUNGARIAN BANKS AND WILL, FOR EXAMPLE, NOT BE ABLE TO TAKE DEPOSITS OR ADVERTISE LOCALLY. AS FAR AS STAFF IS CONCERNED, BOTH WESTERN BANKS WILL HAVE LIMITED NUMBER OF THEIR OWN NATIONALS STAFFING REPRESENTATIVE OFFICES -- IN THE CASE OF FNCB, PROBABLY ONLY ONE OR TWO AMERICANS. ARRANGEMENTS TO PROVIDE LOCAL STAFF AS WELL AS OBTAINING HUNGARIAN STAYING PERMITS FOR FOREIGN BANKERS WILL BE WORKED OUT WITH THE HUNGARIAN NATIONAL BANK ON A SEMI-INFORMAL BASIS. MNB OFFICIALS STRESSED THAT RECENT HUNGARIAN FOREIGN TRADE LAW PERMITTING ESTABLISHMENT OF FOREIGN OFFICES IN BUDAPEST AND STIPULATING CONDITIONS UNDER WHICH SUCH OFFICES WOULD BE PERMITTED TO OPERATE DO NOT APPLY TO OFFICES OF FOREIGN BANKS WHICH ARE SOLELY WITHIN JURISDICTION OF NATIONAL BANK AND MINISTRY OF FINANCE.

3. FINANCE MINISTRY UNDER EXISTING REGULATIONS COULD APPROVE FULL BRANCH OFFICES OF FOREIGN BANKS IN HUNGARY AFTER CONSULTING WITH THE NATIONAL BANK. HOWEVER, THE MNB'S TOP LEGAL ADVISOR QUICKLY ADDED THAT THIS WAS ONLY A THEORETICAL POSSIBILITY AS IT WAS HIGHLY UNLIKELY THAT SUCH BRANCH BANKS WOULD BE PERMITTED TO OPEERATE HERE IN THE FORESEEABLE FUTURE. THE GOH DOES NOT REQUIRE FORMAL OR INFORMAL AGREEMENTS OR RECIPROCITY BEFORE ALLOWING FOREIGN BANKS TO ENTER THE HUNGARIAN MARKET.

4. IN REALITY THERE APPEAR TO BE NO FORMAL SET OF REGULATIONS CONCERNING OPERATION OF FOREIGN BANKS IN HUNGARY AT PRESENT TIME AND NO DOUBT THE HUNGARIAN NATIONAL BANK WOULD LIKE TO MAINTAIN THIS SITUATION WHICH GIVES IT CONSIDERABLE FLEXIBILITY REGARDING FOREIGN BANK OPERATIONS HERE. THE REAL DECISION WHETHER OR NOT TO GRANT FOREIGN BANKS THE AUTHORIZATION TO OPERATE IN HUNGARY RESTS PRIMARILY WITH THE NATIONAL BANK. BOTH WESTERN BANKS WHICH HAVE RECEIVED AUTHORIZATION TO OPEN REPRESENTATIVE OFFICES HERE HAVE ALSO LIMITED OFFICIAL USE

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ORGANIZED CONSORTIUMS TO EXTEND SIZABLE CREDITS TO THE NATIONAL BANK. THE KREDITANSTALT HEADED A CONSORTIUM LAST YEAR WHICH EXTENDED A \$50 MILLION LOAN TO THE MNB WHILE FNCB IS IN THE PROCESS OF ARRANGING FOR A \$100 MILLION CREDIT. THE CONNECTION CAN HARDLY BE ACCIDENTAL AND EMBASSY EXPECTS THAT IN THE CASE OF FUTURE REPRESENTATIVE OFFICES THE WILLINGNESS OF A WESTERN BANK TO OFFER SIMILAR LARGE SCALE CREDITS IS LIKELY TO BE A MOST IMPORTANT FACTOR IN WHETHER OR NOT A

REQUEST FOR OFFICE FACILITIES IS GRANTED. THE HUNGARIANS HAVE INDICATED THAT THEY WOULD BE INTERESTED IN HAVING 6 OR 7 ADDITIONAL REPRESENTATIVE OFFICES OF WESTERN BANKS LOCATED IN BUDAPEST AND HAVE VOICED THE HOPE THAT PERHAPS TWO OR THREE OF THESE MIGHT BE AMERICAN BANKS. EMBASSY DOUBTS THAT FOREIGN BANKS WILL BE PERMITTED TO ENGAGE IN FULL BANKING ACTIVITIES AT ANY TIME IN SHORT- OR MEDIUM-TERM FUTURE. HUNGARIAN NATIONAL BANKERS STRESS THAT THEIR OWN EXPANSION PLANS ABROAD ENVISION ESTABLISHMENT OF ADDITIONAL REPRESENTATIVE OFFICES RATHER THAN FULL SERVICE BANKING OPERATIONS. MUDD

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